March 28, 2011

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
1155 21st Street NW
Washington, DC 20581

RE: "Position limits of Derivatives; Proposed Rule," 76 *Fed. Reg.* 4752 (January 26, 2011).

Dear Mr. Stawick:

National Farmers Union (NFU) appreciates this opportunity to comment on the Commodity Futures Trading Commission's (CFTC) pending action regarding "Position Limits for Derivatives; Proposed Rule," 76 *Fed. Reg.* 4752 (January 26, 2011). As required by Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the proposed rule would impose speculative position limits for designated physical commodities along with certain physical commodity swaps, options and futures contracts executed under the rules of designated contract markets. Additionally, the proposed rule would apply aggregate position limits across different trading venues to contracts based on commodities. The proposed rule would also establish new visibility and accountability regulations with new requirements and standards for position limits. Farmers and ranchers have a great interest in maintaining a healthy commodity marketplace as producers, as commercial end-users and as hedgers. Input from agricultural producers is essential to the rulemaking and implementation process of the Dodd-Frank Act and National Farmers Union (NFU) is pleased to offer input.

NFU has represented family farmers, ranchers and rural residents since 1902 and the organization works to improve the well-being and quality of life for family farmers, ranchers and rural communities by advocating grassroots-driven policy adopted annually by our membership. NFU opposed the deregulation of much of the financial sector in the 1990s and supported the Dodd-Frank Act.

Commodity markets, at the time of their creation, were designed to serve as a tool for commercial end-users and hedgers to mitigate the risks faced in their enterprises. The commodity markets were – and still should be – used to establish fair market prices according to supply and demand fundamentals. Unfortunately, a persistent culture of deregulation and massive positions held by speculators have distorted these markets. Although speculation is necessary to provide markets with liquidity and to assist in risk management practices, speculation has come to dominate commodity markets. A recent study by CFTC found that as much as 80 percent of market activity is conducted by speculators and that speculative activity has increased by 64 percent since June 2008. This level of activity certainly qualifies as "excessive speculation."

NFU understands the demanding timeline for implementation of the Dodd-Frank Act. However, after years of highly volatile commodity markets, the CFTC is now in a position to impose speculative position limits for physical commodities. This is a much-needed and long-awaited regulatory action that will curb the damaging effects of excessive speculation that as many as 60 studies by industry experts, economists, academics, and Congressional committees have cited as the cause of the ongoing commodity market volatility. These findings reinforce the need for meaningful position limits in the commodity markets. Farmers cannot afford any further delays in implementation of meaningful position limits.

In Title VII of the Dodd-Frank Wall Street Reform Act of 2010, Congress acknowledged the potential harm of excessive speculation by requiring that the Commission impose speculation limits on currently unregulated markets. The CFTC has demonstrated, through testimony and discussion at public hearings and in statements, that it understands that the commission is directly tasked with efforts to prevent excessive speculation. However, the position limits prescribed in the proposed rule do not fully address the issue of excessive speculation.

The proposed rule sets spot-month limits at "25 percent of deliverable supply" for designated commodities. A limit set at such a level will have an effect on market manipulation by eliminating the threat of individual traders attempting to corner a market. However, the proposed rule does little to address speculation. A lower spot-month limit would help to address the Congressional mandate put forth by the Dodd-Frank Act to curb or prevent excessive speculation in commodity markets.

The CFTC should be commended, however, for following the intent of Congress by correctly interpreting the amendments to the Commodity Exchange Act included in the Dodd-Frank Act, which require the CFTC to impose position limits, rather than simply allowing the CFTC to do so. Additionally, more information regarding "legacy limits" for referenced agricultural contracts is necessary to better understand the CFTC's intent in raising the single spot-month limit to the same level as the all-month limit. Such an action could provide a loophole for passive investors or index funds to continue or expand their use of agricultural and energy commodities as a speculative investment-friendly market.

Farmers are at the core of our nation's recovery from a difficult economic time. Another commodity price bubble, such as the one that occurred in 2008, would be difficult for many farmers to weather. Swift action to curb or ban excessive speculation can reduce the price volatility that is so damaging to family farmers and ranchers.

Thank you for your consideration of these comments. NFU welcomes any questions regarding this docket or any other component of the ongoing rulemaking process for the implementation of the Dodd-Frank Act.

Sincerely,

Roger Johnson, President
National Farmers Union